



## EXECUTIVE INSIGHTS

# Mapping Opportunities in Australia's Independent IT Services Landscape

Australia and New Zealand's (ANZ) mid-market information technology (IT) services sector represents a compelling \$10 billion to \$15 billion opportunity for private equity investors. This fragmented landscape is home to a growing number of high-quality assets, many of which are well positioned for consolidation. The result is a strong alignment between favourable market conditions and value-creation potential.

For investors who can navigate this ecosystem effectively, the next 12 to 24 months are likely to bring increased deal activity as more investable assets come to market. Independent providers in this region primarily serve organisations with 100 to 1,000 employees – a segment often overlooked by global system integrators and Big Four firms, which concentrate on larger enterprises.

However, in high-skill areas such as cybersecurity and cloud consulting, even Australian Securities Exchange 200 companies often engage with independent specialists who offer local expertise that larger firms may lack. This demand for specialist capabilities has allowed independents to build strong, defensible positions – particularly in the mid-market – making them some of the most attractive opportunities in the sector.

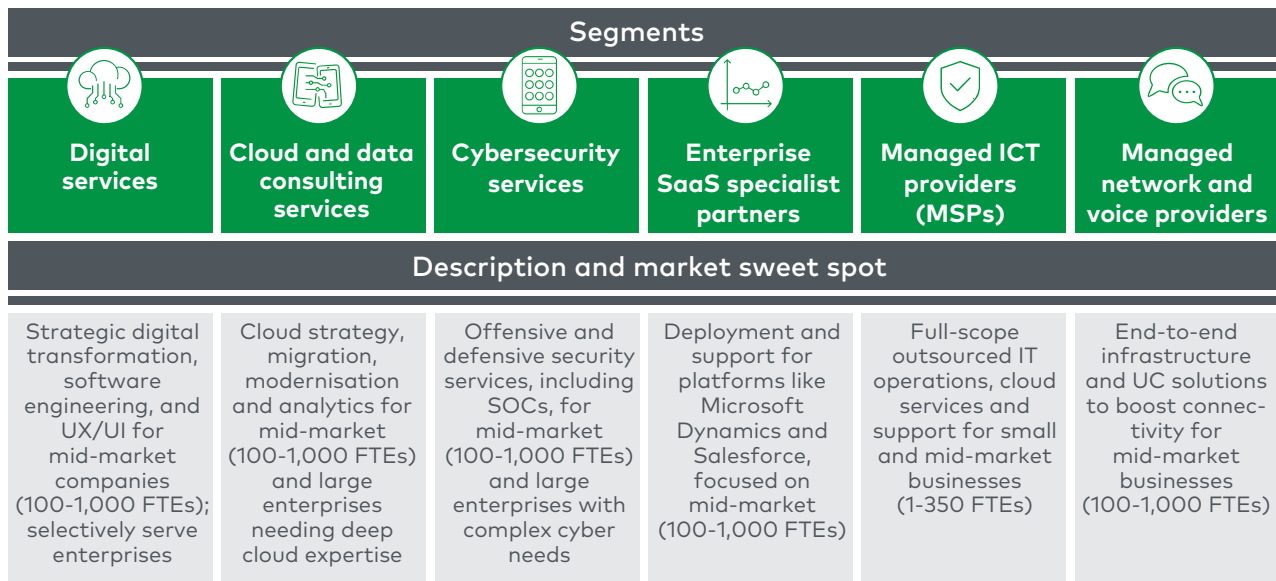
Identifying top investment opportunities begins with a clear view of the six segments that define this landscape and shape its underlying dynamics.

## Six segments of the IT services ecosystem

The chart below provides a side-by-side comparison of the market sweet spot, growth outlook, margin potential and investment activity across the independent IT services landscape — offering a structured lens for evaluating where strategic opportunities may lie (see Figure 1).

Figure 1

Key service segments in the ANZ Independent IT service provider landscape



Note: ANZ=Australia and New Zealand; IT=information technology; SaaS=software-as-a-service; ICT=information and communication technology; MSPs=managed service providers; UX=user experience; UI=user interface; FTE=full-time equivalent  
 Source: L.E.K. research and analysis

These segments each bring unique dynamics that influence their growth, margins and strategic potential:

- **Digital services providers** deliver transformation, software engineering and user experience/interface development, primarily for mid-market clients, while selectively supporting enterprises through time-and-materials models. While offering moderate growth (10%-12%), margins remain modest (8%-12%) and face increasing pressure from artificial intelligence (AI)-driven software development automation.
- **Cloud and data consulting specialists** excel in cloud strategy, migration and application modernisation. Their deep local technical expertise enables them to target larger enterprises. The segment enjoys robust growth (12%-15%), particularly in specialised data and analytics applications.
- **Cybersecurity services** span advisory and managed security operations. This segment shows exceptional strength, driven by increasing threats and regulatory requirements. Growth rates are impressive (12%-20%) with attractive margins (10%-20%), supported by recurring revenue streams and long-term contracts.

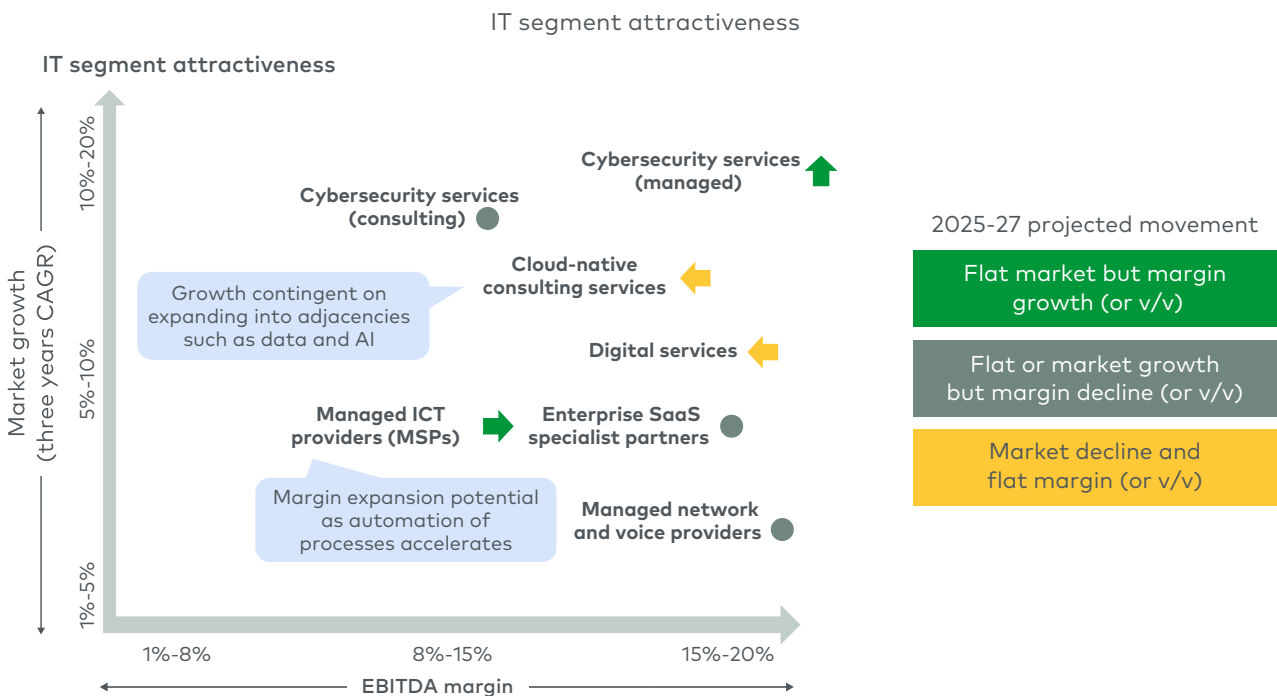
- **Enterprise software-as-a-service (SaaS) specialist partners** implement and support platforms such as Salesforce, Microsoft Dynamics, SAP and Oracle NetSuite. While growth is modest (5%-8%), strong earnings before interest, taxes, depreciation and amortisation (EBITDA) margins (12%-15%) reflect sticky client relationships and ongoing service engagements.
- **Managed information and communication technology (ICT) providers (managed service providers (MSPs))** deliver comprehensive outsourced IT operations with stable, contracted recurring revenues. Growth is steady (10%-12%) with variable margins (8%-20%) due to market fragmentation. This creates significant consolidation opportunities for disciplined players.
- **Managed network and voice providers** specialise in networking and unified communications infrastructure. Market dynamics are challenging, with commoditisation driving lower growth (5%-7%) but higher margins (15%-25%). These services typically create more value as complementary offerings rather than standalone businesses.

With these dynamics in mind, the next step is to assess where growth and profitability most effectively intersect to guide investment priorities.

### Where growth meets profitability

Not all segments offer equal investment potential. The most compelling opportunities combine strong growth with sustainable margins (see Figure 2).

Figure 2



Note: IT=information technology; CAGR=compound annual growth rate; AI=artificial intelligence; ICT=information and communication technology; MSPs=managed service providers; SaaS=software-as-a-service; EBITDA=earnings before interest, tax and amortisation  
 Source: L.E.K. research and analysis

While the independent IT services market is typically framed around the six segments shown above, L.E.K. Consulting distinguishes between managed cybersecurity services and cybersecurity consulting due to their sharply different revenue models and scalability profiles. This segmentation reveals seven distinct investment areas, each offering a unique combination of growth trajectory, margin profile and value creation potential:

- 1. Managed cybersecurity services** stands out with 12%-15% EBITDA margins and growth approaching 20%. Mid-market companies increasingly recognise cybersecurity as an existential necessity rather than merely important. The growing sophistication of cyberattacks has created significant exposure for mid-market firms, with ransomware attacks potentially threatening business continuity. High-profile incidents involving Optus and Medibank have accelerated awareness and adoption across the segment.
- 2. Cybersecurity consulting** follows closely, benefitting from the same market drivers. While margins are slightly lower due to labour intensity, these businesses often develop long-term client relationships that generate consistent revenue.
- 3. Cloud and data consulting** remains attractive, though basic 'lift and shift' work is increasingly commoditised. The most promising players are those expanding into data, AI and application modernisation – areas that offer differentiation and margin resilience. Organisations focused on modernisation and building new platforms continue to see attractive growth trajectories.
- 4. Enterprise SaaS specialists** balance moderate growth with strong margins based on platform expertise (Salesforce, SAP, Microsoft Dynamics). This creates stickiness and recurring revenue through ongoing managed services.
- 5. Managed ICT providers (MSPs)** offer stable, multiyear contracts and recurring revenue. Automation of operational and support processes is transforming this space, enabling significant margin expansion as delivery costs decrease. Market fragmentation creates ample roll-up opportunities.
- 6. Digital services** face increasing headwinds despite healthy demand. Margins are under pressure from offshore competition and emerging AI-assisted software development. The advancement of AI in coding puts significant pressure on this segment, requiring cautious evaluation.
- 7. Managed network and voice providers** face the most challenging dynamics in a low-growth market. These providers often create more strategic value as bolt-on acquisitions, enhancing the breadth and stickiness of larger MSP platforms.

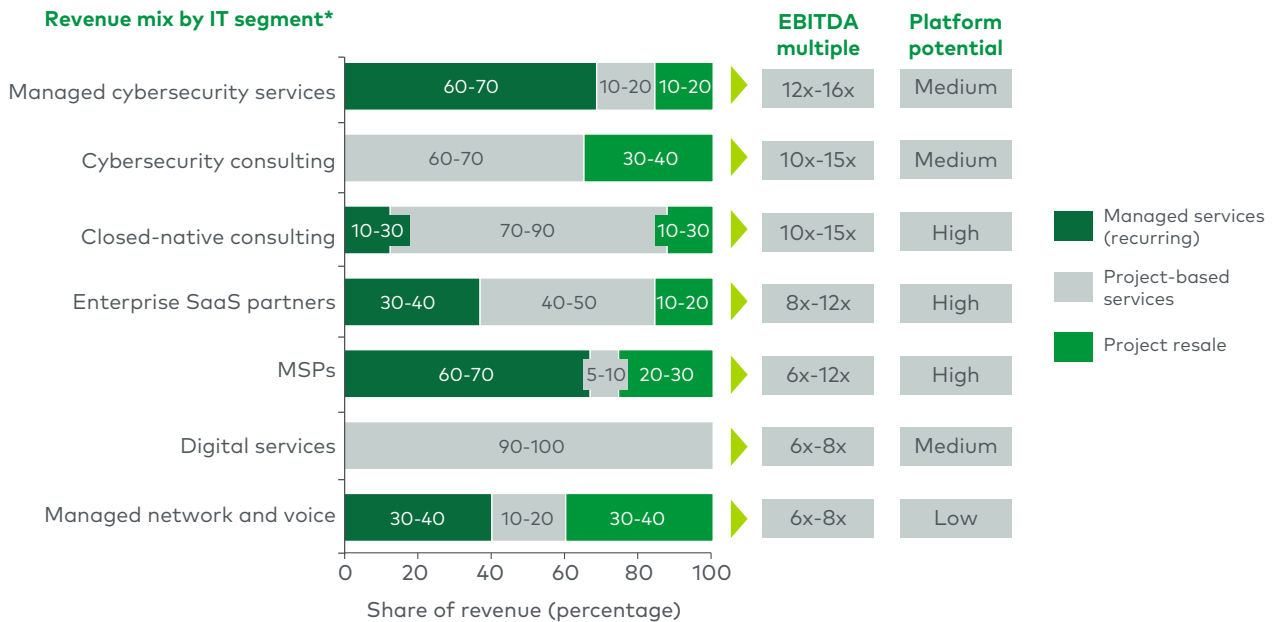
Valuation outcomes in this sector are shaped less by growth alone and more by one critical factor: revenue predictability.

### The predictability premium in valuations

In the ANZ mid-market, segments with high recurring revenue — particularly those with three-to-five-year contracts — consistently command premium multiples (see Figure 3).

Figure 3

Revenue mix and valuation multiples by segment



\*Distinct revenue mixes across ANZ IT segments underpin valuation multiples; recurring revenue streams command premium investor interest  
 Note: IT=information technology; EBITDA=earnings before interest, taxes, depreciation and amortisation; SaaS=software-as-a-service; MSPs=managed service providers  
 Source: L.E.K. research and analysis

Each segment’s position on the valuation spectrum is shaped by a distinct combination of revenue mix, platform potential and scalability:

- **Managed cybersecurity services** lead with 60%-70% recurring revenue and strong platform potential, commanding 12x-16x EBITDA multiples. Growth is driven by increasing threats and regulation, with significant greenfield opportunity. Most cybersecurity work in this space is from organisations that previously had no formal protection, representing true whitespace opportunity rather than displacement of existing providers.
- **Cybersecurity consulting** earns comparable multiples (10x-15x) despite being more project-based. These businesses benefit from ‘recurring revenue’ — engagements that behave like multiyear contracts despite their project-based nature. Long-term client relationships typically evolve into rolling multiyear statements of work, creating predictable revenue streams.

- **Cloud-native consulting** (8x-10x multiples) sees only 10%-30% technically recurring revenue but benefits from high client retention and ongoing transformation projects. The most valuable businesses in this segment have evolved beyond basic migration services into data modernisation, AI and application modernisation.
- **Enterprise SaaS partners** trade at 8x-12x multiples with strong platform potential. Their vendor relationships drive stickiness, with value creation opportunities in vertical accelerators and post-implementation services.
- **MSPs** maintain 6x-12x multiples with 60%-70% recurring revenue. While operating in a mature market, they offer excellent platform potential for buy-and-build strategies through automation and consolidation. The likelihood of customers using MSPs for both IT work and security decreases as organisation size increases, with specialised security providers becoming more common above 500 employees.
- **Digital services** remain challenged at 6x-8x EBITDA multiples, with revenue that is 90% or more project-based and margins pressured by offshore competition and AI solutions. Success depends on differentiation or developing managed services offerings.
- **Managed network and voice providers** face limited growth and margin expansion, with multiples around 6x-8x despite 40% recurring revenue. These businesses typically create more value as bolt-on acquisitions than standalone investments.

These valuation benchmarks are informative, but to gain deeper insight, it's essential to examine how competition and market evolution are shaping each segment's strategic outlook.

### Market dynamics and emerging opportunities

The competitive environment varies significantly by segment. Specialist independents successfully compete with global firms in high-value segments such as cybersecurity and cloud consulting through their ability to deploy local experts on-site — an advantage global firms often lack in Australia.

MSPs remain absent from enterprise-level engagements dominated by Accenture, Wipro and other global integrators, while mid-market competition occurs primarily among independents.

Service adoption patterns correlate with company size: larger organisations shift towards best-of-breed approaches with multiple specialised vendors, while smaller organisations prefer consolidated providers.

Our in-depth understanding of this industry indicates several high-quality assets will likely enter the market over the next 24 months, spanning MSPs with growing enterprise SaaS capabilities, cloud-native specialists and providers with government expertise. These represent distinct strategic opportunities — from platform acquisitions to transformation plays and bolt-ons — each with specific investment theses focused on cross-selling, margin expansion and consolidation potential.

### Navigating the path to value creation

Several strategic implications emerge for private equity investors:

- **Segment selection matters:** Investment theses must be tailored to specific market opportunities rather than relying on a generic IT services perspective. The varying growth trajectories, margin profiles and competitive dynamics across segments demand deep, segment-level expertise before capital is deployed.
- **Revenue mix drives valuation:** Recurring revenue should be a central focus across all segments. Investors should prioritise businesses with a clear strategy for transitioning from project-based models to recurring revenue — or those demonstrating strong 'recurring' streams through long-term client relationships.
- **Scale benefits are segment-specific:** MSPs benefit significantly from consolidation-driven operational leverage, while cybersecurity and cloud consultancies gain more from talent concentration and thought leadership. Understanding these differing scale dynamics is essential when setting growth targets and integration strategies.
- **Adjacency expansion requires careful orchestration:** Cross-selling opportunities must be balanced with the need to preserve specialist positioning. The most successful expansions build on existing technical credibility rather than seeking to replicate the broad service portfolios of global integrators.
- **Geographic expansion opportunities vary:** Managed cybersecurity and cloud consulting offer viable routes for Southeast Asian growth, whereas other segments face greater challenges when internationalising. Market selection is key — Singapore and Malaysia typically provide more accessible entry points than Indonesia or Vietnam.

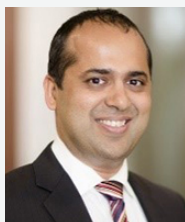
The next 12–24 months represent a compelling window for private equity investment in Australia's independent IT services landscape. The most attractive opportunities will combine strong positioning in high-growth segments with a demonstrated ability to build recurring revenue and enhance both organic growth and margins.

For investors new to this market, understanding the interplay between segment positioning, revenue composition and competitive dynamics is critical to developing a robust investment thesis. Those who can navigate this complexity effectively will be well positioned to capitalise on a market undergoing rapid evolution and consolidation.

Our team brings deep experience in technology strategy, cloud computing, SaaS and M&A advisory. We support investors throughout the full journey — from target identification to value creation — leveraging our proprietary database of 200-plus ANZ providers and a market-sizing model we've maintained since 2018, providing robust time-series insights into how these segments have evolved and where they're headed.

**Contact us** to discuss how we can help you navigate the ANZ IT services landscape with confidence.

### About the Authors



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Aakash Gandhi is a Partner in L.E.K. Consulting's Sydney office and a member of the firm's Major Capitals Advisory practice. Aakash advises clients on a range of issues across technology and telecommunications, including technology and digital strategy, corporate growth strategy, new market development, product development and M&A. He has particular expertise in cloud computing, software/SaaS, data and analytics, digitisation, communications (telecom, satellites, submarine cables) and data centres.



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### About L.E.K. Consulting

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